GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2026
ANSWERED ON:05.08.2005
BANKING REFORMS
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Will the Minister of FINANCE be pleased to state:

(a) whether the Government is seriously considering to fresh reforms in Banking Sector in the country;

(b) if so, the details in this regard;

(c) whether banking sector in the country is not showing the desired results as required;

(d) if so, the details thereof; and

(e) the extent to which fresh banking sector reform would help in the growth of public sector banks?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI S. S. PALANIMAN1CKAM)

(a) and (b) Yes, Sir. The Finance Minister in his Budget Speech for 2005-06 stated that Reserve Bank of India has prepared a road map for banking sector reforms. Accordingly, Reserve Bank of India released the road map for foreign banks alongwith the guidelines on owner and governance in private sector banks.

(c) to (e) These reform measures have had major impact on the overall efficiency and stability of the banking system in India. The present capital adequacy of Indian banks is comparable to those at international level. There has been a marked improvement in the asset quality with the percentage of gross non-performing assets (NPAs) to gross advances for the banking system reduced from 14.4 per cent in 1998 to 72 per cent in 2004. The reform measures have also resulted in an improvement in the profitability of banks. The Return on Assets {RoA) of the banks rose from 0.4 per cent in the year 1991-92 to 1.2 per cent in 2003-04. Considering that, globally, the RoA has been in the range of 0.9 to 1.5 percent for 2004, Indian Banks are well placed. The banking sector reforms also emphasized the need to review the manpower resources and rationalize the requirements by drawing a realistic plan so as to reduce the operating cost and improve profitability. During the last five years, the business per employee for public sector banks more than doubled to around Rs. 25 million in 2004. The reforms would help in strengthening of balance sheet, lowering of transaction cost and improvement in customer service through increased competition and improved risk management.